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SUBJECT: MINI-LINKS - SMALL IMPACT, BIG DREAMS

Classified By: AIT Director Douglas H. Paal, Reason 1.5 b/d

Summary

11. (C) On a recent trip to Kinmen, econoff observed that the "mini-links" connecting the Taiwan-controlled islands of Kinmen and Matsu directly with the Mainland are bringing only limited benefit to the local economy. Most passenger travel via the mini-links consists of Taiwan businessmen with investments in the Mainland briefly transiting Kinmen.

Cross-Strait cargo shipments are made up mostly of gravel imports from the PRC. Local officials and businessmen see tourists from the PRC as the islands' best chance for future economic growth. Some hope, perhaps unrealistically, that Kinmen will receive up to a million PRC visitors per year. Officials have also been engaged with Xiamen officials on plans for a bridge to the Mainland and other infrastructure projects. Government controls in both capitals are holding back these plans, illustrating once again that politics in Taipei and Beijing are the only things holding back more extensive cross-Strait economic activity. End summary.

12. (U) In 2000, newly elected President Chen Shui-bian announced the opening of the "mini-links," allowing passengers and cargo, subject to various restrictions, to travel directly by boat between Taiwan-controlled Kinmen and Matsu and Fujian province's Xiamen and Fuzhou. Early on the mini-links were seen as an interim step toward full direct transportation links between Taiwan and the Mainland, but many have been disappointed by subsequent progress on cross-Strait economic liberalization. During a late-January trip to Kinmen, the larger of the two islands, econoff observed that the mini-links have not yet proven to be any great boon to the local economy either.

Cross-Strait Travel) Just Passing Through

13. (U) Traffic across the Taiwan Strait via the mini-links has increased dramatically since they began operations in January 2001. Nearly 13,000 people used the mini-links in the first year of operation. That number increased to almost 29,500 in 2002 and more than 85,500 in 2003. Last year more nearly 215,000 travelers used the mini-links. Ni Zheng-tu, Deputy Director of the Kinmen County Harbor Affairs Bureau expects the rapid growth to continue with some 600,000 mini-links travelers in 2005.

14. (U) Use of the mini-links is limited to Kinmen and Matsu residents, Taiwan businessmen with investment in the Mainland, and PRC nationals visiting Kinmen and Matsu. The vast majority of travelers are from the Taiwan side, accounting for 94 percent of travelers. Of these only a third are Kinmen/Matsu residents. Most of the travelers are Taiwan investors.

15. (SBU) As a result of this transit traffic, the impact of mini-links travel on the local Kinmen economy has been small. Most of the travelers pass through Kinmen without bringing any significant economic benefit to the region. In fact, the transit through Kinmen is so brief that, despite the 40-minute ferry ride to Xiamen, travelers can often go from Taipei to Shanghai transiting the mini-links in about the same amount of time as traveling via Hong Kong. The Kinmen airport is working on new baggage handling services, which will make the transit even more seamless. The only visible signs of economic benefit from this type of travel are the newly completed terminal and harbor administration offices and other ongoing infrastructure improvements at the passenger ferry harbor. In addition, Kinmen Airport Director Wang You-ling told econoff that the Taiwan government has budgeted NT\$ 2.8 billion (about USD 87.5 million) for airport improvements to bring the facility fully up to ICAO standards.

Shipping) Mostly Just Rocks

16. (U) The impact from direct cargo shipping has also been very small. Cargo shipping via the mini-links is restricted only to goods produced locally in Kinmen and Matsu or PRC goods to be consumed on the two islands. The mini-links

cannot be used to transship goods to and from Taiwan, unless they are goods for the personal consumption of Taiwan businessmen in the Mainland. As a result, most ships sailing the mini-links route carry only passengers. Moreover, most of the cargo ships carry only gravel and sand from the Mainland to Kinmen and Matsu. Many other PRC goods that might find a market in Kinmen and Matsu cannot legally be imported, especially agricultural goods. Smuggling of fruits and vegetables is a perennial problem on the islands.

17. (SBU) Kinmen Customs Office Director Lin Tun-sung told econoff that cargo shipments to the Mainland are very small because in general goods produced in Kinmen and Matsu are too expensive to find a broad market in the PRC. The two islands have very little industry with the exception of a distillery producing Kaoliang, a popular sorghum liquor. According to Kinmen County Deputy Commissioner Yang Zhong-quan, the Kaoliang distiller has established two sales offices in the Mainland to increase exports. Customs Officer Director Lin added that customs and inspections procedures for transshipping goods to Taiwan businessmen in the Mainland are too cumbersome so very few goods move via that route. He hopes that MAC will liberalize the restrictions on goods that can be transshipped via Kinmen.

Dreaming of a PRC Tourist Invasion

18. (SBU) With so little benefit from Taiwan business transit travel and cargo shipment for local markets, Kinmen business circles and officials place their hopes for future economic prosperity on expanded tourism. In September 2004, Fujian province legalized tourism travel to Kinmen and Matsu for Fujian residents. The first tour groups began traveling to the islands in early December, but to date their numbers have been negligible. Only three tour groups totaling 55 visitors have visited Kinmen under the new policy. Chairman of the Kinmen Tourism Development Association Yang Yin-hsien complained that the application is too complicated and approval takes too long. He claimed it took MAC an average of 45 days to approve each of the tour groups that visited last year. Ho Jin-liang, Chairman of the Kinmen County Travel Agent Business Association pointed out that MAC meets only twice a month with other concerned agencies to consider PRC-Kinmen tourism applications.

19. (C) Ho also told econoff that the PRC liberalization of tourism for Fujian residents was politically motivated. He believes that the PRC announcement was intended to help Kinmen's Pan-Blue legislator Wu Cheng-dian win reelection. He complained that the PRC had no transparent criteria for authorizing Kinmen travel agents to arrange PRC tourism travel. According to Ho, Kinmen officials proposed 16 travel agents, but the PRC approved only seven.

10. (SBU) Nevertheless, expectations remain high. Yang of the Tourism Development Association speculated, perhaps unrealistically, that annual Mainland visitors could potentially reach the level of one million visits per year. Deputy Commissioner Yang had similar hopes. He pointed out 13 million Mainland tourists visit Fujian province each year. He commented that even if only 10 percent of those visitors made the trip to Kinmen it would bring huge benefits to Kinmen's economy. Yang argued that MAC should extend mini-links travel to foreign visitors as well, noting that an easy side-trip to the PRC would make Kinmen an attractive travel destination for international travelers. (Comment: Econoff observed that travel services in Kinmen do not yet meet standards many international tourists would expect. End note.)

11. (U) To facilitate this kind of travel, banks in Kinmen are prepared for liberalization of New Taiwan Dollar*Renminbi currency exchange on the island. In September 2004, MAC announced that Kinmen banks would be permitted to exchange Renminbi on a trial basis. However, it has not yet implemented the plan. Two of Kinmen's three bank branches have been approved to provide these services. They have already completed preparatory testing, inspection and personnel training. At the Land Bank branch, the Renminbi has even been added to the currency exchange rate board, but no exchange rate appears yet.

More Big Plans

112. (SBU) In other areas of cross-Strait economic activity, Kinmen is waiting for further liberalization of Taiwan government restrictions before charging ahead with big plans. Kinmen County Public Works Bureau Director General Chen Chia-hsin briefed econoff on unofficial discussions with Xiamen on a bridge to link the two municipalities. In 2000, officials from both sides presented six proposals for a Kinmen-Xiamen bridge at an academic conference. In November 2003, officials attended what Chen described as a preparatory meeting on one of the bridge proposals. However, according

to Chen, MAC refused to permit Kinmen representatives to attend a follow-up meeting in December 2003.

¶13. (SBU) Kinmen is also studying plans to acquire fresh water from the Mainland. At current levels of growth, Kinmen officials estimate that water requirements will exceed the island's supply by more than 25 percent in just 6 years. Kinmen Waterworks Superintendent Weng Tzu-pao told econoff that county officials have discussed proposals with Mainland counterparts and have identified a preferred water source and route for an overland and submarine pipeline. Future plans include water pipelines on the proposed Kinmen-Xiamen bridge. Further progress on the project will require MAC approval.

Comment) Waiting on Taipei and Beijing

¶14. (C) Even for the local economies of Kinmen and Matsu, the economic impact of the mini-links has been small. However, they continue to fuel big dreams in various fields. Even the local college, the National Kinmen Institute of Technology, is working on joint programs with Mainland universities and an executive MBA program for Taiwan investors on the Mainland. Many of these big plans have so far been frustrated by the narrow scope of the mini-links and slow progress on cross-Straight economic liberalization. Nevertheless, pervasive cross-Straight interaction and serious preparations in Kinmen once again show that politics in Taipei and Beijing are the only things holding back much more profound cross-Straight economic activity. End comment.

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